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PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
Kekuanaoa Building, First Floor
465 South King Street
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2008-0083
HECO 2009 Test Year Rate Case
Rate Case Updates – Set #5

Enclosed is the fifth set of updates to Hawaiian Electric Company, Inc.'s ("HECO") 2009 test year estimates reflected in the Application, Direct Testimonies, Exhibits, and Workpapers filed with the Commission on July 3, 2008. This set includes updates to the following:

- HECO T-9 – Darren S. Yamamoto

Very truly yours,

Enclosure

cc: Division of Consumer Advocacy
Michael L. Brosch, Utilitech, Inc.
Joseph A. Herz, Sawvel & Associates, Inc.
Dr. Kay Davoodi, Department of Defense
Gayle B. Chestnut, Department of Defense
Ralph Smith, Larkin & Associates

RATE CASE UPDATE

Ref: D. Yamamoto, HECO T-9, Customer Deposits, Interest on Customer Deposits, Uncollectible Accounts Expense, Late Payment Charges, Account 902 and Account 903 Expenses

With this Update, HECO is revising its test year estimates of customer deposits and interest on customer deposits by an additional \$549,000 and \$8,000, respectively. Also, the test year estimates of O&M expenses in accounts 902 and 903 have been increased by \$353,000 and \$182,000, respectively. HECO will submit its updated estimates of the test year uncollectible accounts expense and late payment charges at a later date when the Company has finalized its test year revenue requirements.

Customer Deposits and Interest on Customer Deposits

The customer deposits and interest on customer deposits have been updated to reflect the recorded actuals through September 2008 with estimates to December 2008 and an updated estimate for 2009. These updates resulted in increases for both the customer deposits and interest on customer deposits for the 2009 test year. The customer deposits estimated balance for the 2009 test year increased by \$549,000, from \$7,695,000 to \$8,244,000, due to the revised estimate of the 2008 end-of-year balance which increased by \$527,000. Like customer deposits, the interest on customer deposits estimate for the 2009 test year increased by \$8,000 from \$471,000 to \$479,000, due to the revised, higher 2008 end-of-year estimated balance. HECO-902, HECO-903, HECO-WP-902, and HECO-WP-903 have been updated to reflect the changes in the test year estimates and are presented on pages 4 through 7.

Account 902 Expenses

Estimated expenses for the meter reading expenses (account 902.00) were increased by \$353,000 for the cost of six additional temporary meter readers from a staffing agency (see

updated HECO-901, pages 8 and 9). Due to the increase in testing and project support requirements recently identified by the Customer Information System ("CIS") team, regular employees who are assigned to the CIS project will be extending their assistance to the CIS project. Four of the additional temporary meter readers are needed to support the operations by performing the duties of these regular employees after the go-live date and during the transition period in which other parts of the Company become more accustomed to the new CIS system. The work being performed by these temporary meter readers will be charged to operating expenses while the employees assigned to the CIS project will charge their time to the CIS project.

The two remaining temporary meter readers will replace regular meter readers who will supplement HECO's current senior field investigator staff in addressing an increase in bill inquiries ("BI"). The majority of the BIs are resolved by verifying and reconciling the meter read data with the cause of the bill charges, usually in the recent past, due to increased fuel oil costs. By having the BIs addressed by these temporary meter readers, the senior field investigator staff is able to focus on performing higher level analytical work and will enable the Company to quickly respond to the customer inquiries.

Account 903 Expenses

Estimated expenses for customer records and collections (account 903.00) were increased by \$182,000 due to the following:

1. A \$78,000 net increase adjustment for the cost of additional credit checks due to the implementation of new procedures to comply with the Fair and Accurate Credit Transaction Act ("FACTA") in preventing identity theft. The annual cost of \$87,000 is based on an estimate of new customers (volume) multiplied by the rate for each connect

check plus credit report. This cost (see table below) is reflected under RA PCH, replacing the previous test year credit check estimate under RA PCD, of \$9,000.

Budget Estimate:

Price/Unit	FACTA Surcharge	Tax	Price/Unit Total	Volume	Annual Cost
\$1.43	\$0.11	\$0.07	\$1.61	54000	\$87,081.83

2. An additional \$104,000 for the increased rate for CIS post go-live programming consultant costs. This revised estimate of \$302,000 reflects the adjustment for the cost of a more representative skill level that is required at \$175 per hour for senior business analysts (outside consultants). The previous estimate of \$198,000 was based on preliminary information (see CA-IR-2, Attachment 2, page 17).

The updated amounts discussed above are summarized and submitted in the updated HECO-901 on pages 8 and 9. (The uncollectible accounts in HECO-901 will be revised when the Company has finalized its test year revenue requirements and HECO-905 is updated.) In addition to the above, one additional customer service billing clerk is required to support the Solar Saver Program, as a result of the recently executed Hawaii Clean Energy Initiative ("HCEI") agreement. However, because the labor costs for this position will be recovered from the DSM surcharge, the test year has not been adjusted for these costs. The HCEI agreement is discussed in Mr. Alan Hee's (HECO T-10) Rate Case Update and the employee count is discussed in Ms. Faye Chiogioji's (HECO T-15) Rate Case Update.

HAWAIIAN ELECTRIC COMPANY, INC.

CUSTOMER DEPOSITS

(ACCOUNT 235.01)

(\$ THOUSANDS)

<u>Line</u>		
1	Recorded Balance 12/31/03	5,072
2	Recorded Net Increase in 2004	-6
3	Recorded Balance 12/31/04	5,066
4	Recorded Net Increase in 2005	321
5	Recorded Balance 12/31/05	5,387
6	Recorded Net Decrease in 2006	982
7	Recorded Balance 12/31/06	6,369
8	Recorded Net Increase in 2007	432
9	Recorded Balance 12/31/07	6,801
10	<u>Upd Estimated</u> Net Increase in 2008	1,106
11	<u>Upd Estimated Balance 12/31/08</u>	7,907
12	<u>Upd Estimate Increase 12/31/09</u>	674
13	<u>Upd Estimated Balance 12/31/09</u>	<u>8,581</u>
	Upd Estimated Balance 12/31/08	7,907
	Upd Estimated Balance 12/31/09	<u>8,581</u>
		<u>16,488 /2</u>
		8,244

HAWAIIAN ELECTRIC COMPANY, INC.

INTEREST ON CUSTOMER DEPOSITS

(ACCOUNT 431.05)

(\$ THOUSANDS)

<u>Line</u>		
1	Recorded Balance 12/31/03	280
2	Recorded Net Increase in 2004	27
3	Recorded Balance 12/31/04	307
4	Recorded Net Increase in 2005	2
5	Recorded Balance 12/31/05	309
6	Recorded Net Increase in 2006	39
7	Recorded Balance 12/31/06	351
8	Recorded Net Increase in 2007	49
7	Recorded Balance 12/31/07	400
8	<u>Upd Estimated</u> Net Increase in 2008	41
9	<u>Upd Estimated</u> Balance 12/31/08	441
10	<u>Upd Estimated</u> Increase in 2009	38
11	<u>Upd Estimated</u> Balance 12/31/09	479

Source: HECO-WP-903 RATE CASE UPDATE - DEP INT

HAWAIIAN ELECTRIC COMPANY, INC.
CUSTOMER DEPOSITS
(Account 235.01)

	2003	2004	2005	2006	2007	2008
JANUARY	4,542,477	5,096,061	5,075,469	5,461,661	6,518,843	6,897,836
FEBRUARY	4,530,123	5,124,279	5,099,965	5,596,777	6,600,316	6,958,955
MARCH	4,564,027	5,164,089	5,094,526	5,741,625	6,681,692	7,437,645
APRIL	4,590,389	5,161,650	5,116,575	5,798,289	6,681,665	7,141,140
MAY	4,616,784	5,139,280	5,148,162	5,828,493	6,721,780	7,217,302
JUNE	4,594,128	5,144,856	5,152,599	5,909,336	6,716,049	7,330,189
JULY	4,575,584	5,090,420	5,139,242	5,950,459	6,718,205	7,455,249
AUGUST	4,693,623	5,125,293	5,143,856	6,009,412	6,753,675	7,610,294
SEPTEMBER	4,812,854	5,124,987	5,179,767	6,077,225	6,754,462	7,741,329
OCTOBER	5,020,781	5,035,822	5,273,681	6,217,532	6,725,736	7,796,299 (1)
NOVEMBER	5,065,511	5,030,873	5,359,351	6,294,852	6,801,986	7,851,659 (1)
DECEMBER	5,071,972	5,065,653	5,387,270	6,368,722	6,800,761	7,907,412 (1)

Avg. annual % increase (2003 - 2007) 8.521% 0.7101% 1/12 of avg. annual increase to est. yr end
Based on year end balances

			YEAR-END BALANCE
2008	6,800,761 X	1.08521 =	7,380,254
2009	7,380,254 X	1.08521 =	8,009,125

2008 UPD	2009 UPD
Est. Yr-End BALANCE	Est. YR- END
7,907,412 X	1.08521 = 8,581,203

(1) $\frac{2007 \text{ YEAR END BALANCE} - 2003 \text{ YEAR END BALANCE}}{2003 \text{ YEAR END BALANCE}}$

$$\frac{6,800,761 - 5,071,972}{5,071,972} = 34.085\% / 4 \text{ Years} = 8.521\%$$

HAWAIIAN ELECTRIC COMPANY, INC.
INTEREST ON CUSTOMER DEPOSITS
(Account 431.05)

	2003	2004	2005	2006	2007	2008
JANUARY	22,415	25,360	25,328	26,936	31,844	34,004
FEBRUARY	22,712	25,480	25,377	27,308	32,594	34,489
MARCH	22,651	25,621	25,500	27,984	33,002	34,795
APRIL	22,820	25,820	25,473	28,708	33,408	37,188
MAY	22,952	25,808	25,583	28,991	33,408	35,706
JUNE	23,084	25,696	25,741	29,142	33,609	36,087
JULY	22,971	25,724	25,763	29,547	33,580	36,651
AUGUST	22,878	25,452	25,696	29,752	33,591	37,276
SEPTEMBER	23,468	25,626	25,719	30,047	33,768	38,051
OCTOBER	24,064	25,625	25,899	30,386	33,772	38,707 (1)
NOVEMBER	25,104	25,179	26,368	31,088	33,629	38,981 (1)
DECEMBER	25,328	25,154	26,797	31,474	34,010	39,258 (1)
TOTALS	280,446	306,548	309,244	351,365	400,216	441,193

ESTIMATED
ACCRUED
INTEREST

2008	400,216 x 108.521%	=	434,318
2009	434,318 x 108.521%	=	471,326

2008 Upd Est. Year End	2009 Upd Est. Year End
441,193 x 108.521%	= 478,787

(1) Estimated accrued interest amount

HAWAIIAN ELECTRIC COMPANY, INC.
CUSTOMER ACCOUNTS EXPENSE
2003 - 2009

(\$ THOUSANDS)

	RECORDED					BUDGET		ADJUST	Nov. 2008 Direct Test. Update TY Update		
	2003	2004	2005	2006	2007	2008	2009		2009	2009	2009
CUSTOMER ACCOUNTS											
901.00 Supervision	620	856	973	1,156	1,331	1,279	1,658	0	1,658	0	1,658
902.00 Meter Reading Expenses	2,085	2,413	2,192	2,472	2,518	3,123	3,545	0	3,545	353	3,898
903.00 Cust Records & Collection	6,335	7,049	7,644	7,106	7,429	10,168	10,786	(35)	10,751	182	10,933
905.00 Misc. Customer Accounts	0	1	1	0	0	0	0	0	0	0	0
Subtotal less Uncollectible Acct.	9,040	10,319	10,810	10,734	11,278	14,570	15,989	(35)	15,954	535	16,489
904.00 Uncollectible Accounts	1,015	413	339	1,582	976	970	1,093	190	1,283	0	1,283
Total Customer Account Expense Present Rates	10.055	10.732	11.149	12.316	12.254	15.540	17.082	155	17.237	535	17.772
904.00 Uncollectible Accounts	1,015	413	339	1,582	976	970	1,093	246	1,339	0	1,339
Total Customer Account Expense Current Effective Rates	10.055	10.732	11.149	12.316	12.254	15.540	17.082	211	17.293	535	17.828
904.00 Uncollectible Accounts	1,015	413	339	1,582	976	970	1,093	316	1,409	0	1,409
Total Customer Account Exp. CIP1 CT-1 (Full Cost) @ Present & Current Effective Rates	10.055	10.732	11.149	12.316	12.254	15.540	17.082	281	17.363	535	17.898
904.00 Uncollectible Accounts	1,015	413	339	1,582	976	970	1,093	298	1,391	0	1,391
Total Customer Account Exp. Interim Increase (w/o CIP1 CT-1) @ Present & Current Effective Rates	10.055	10.732	11.149	12.316	12.254	15.540	17.082	263	17.345	535	17.880
904.00 Uncollectible Accounts	1,015	413	339	1,582	976	970	1,093	307	1,400	0	1,400
Total Customer Account Expense Base Case at Present & Current Effective Rates	10.055	10.732	11.149	12.316	12.254	15.540	17.082	272	17.354	535	17.889

Source: HECO-WP-101 (B), Reports S1 & S2 for Recorded 2003-2007, 2008 Budget latest update & 2009 TY.

Uncollectible expense based on Revenues 6-24-08 from Lori Okazaki

HAWAIIAN ELECTRIC COMPANY, INC.
CUSTOMER ACCOUNTS EXPENSE
2003 - 2009
(\$ THOUSANDS)

LINE	CUSTOMER ACCOUNTS	RECORDED					BUDGET		ADJUST	Direct Test	Nov. 2008	TY Update
		2003	2004	2005	2006	2007	2008	2009		Budget	Update	
	2009									2009	2009	2009
	<u>Acct 901 - Supervision</u>											
1	Labor	60	43	80	146	153	169	177		177	0	177
2	Non-labor	560	813	893	1,010	1,178	1,110	1,481		1,481	0	1,481
3	TOTAL	620	856	973	1,156	1,331	1,279	1,658		1,658	0	1,658
	<u>Acct 902 - Meter Reading</u>											
4	Labor	1,847	1,963	1,852	2,090	2,133	2,635	3,016		3,016	0	3,016
5	Non-labor	238	450	340	382	385	488	529		529	353	882
6	TOTAL	2,085	2,413	2,192	2,472	2,518	3,123	3,545		3,545	353	3,898
	<u>Acct 903 - Cust Rec. & Collec.</u>											
7	Labor	3,724	4,012	4,400	4,105	4,439	5,358	4,909		4,909	0	4,909
8	Non-labor	2,611	3,037	3,244	3,001	2,990	4,810	5,877	(35)	5,842	182	6,024
9	TOTAL	6,335	7,049	7,644	7,106	7,429	10,168	10,786	(35)	10,751	182	10,933
	<u>Acct 905 - Misc Cust Accts.</u>											
10	Labor	0	1	1	0	0	0	0		0	0	0
11	Non-labor											
12	TOTAL	0	1	1	0	0	0	0		0	0	0
	Sub total 901,902,903,905											
13	Labor	5,631	6,019	6,333	6,341	6,725	8,162	8,102	0	8,102	0	8,102
14	Non-Labor	3,409	4,300	4,477	4,393	4,553	6,408	7,887	(35)	7,852	535	8,387
15	TOTAL	9,040	10,319	10,810	10,734	11,278	14,570	15,989	(35)	15,954	535	16,489
	<u>Acct 904 - Uncollectible Accts.</u>											
16	Non-labor	1,015	413	339	1,582	976	970	1,093	190	1,283		1,283
17	TOTAL	1,015	413	339	1,582	976	970	1,093	190	1,283		1,283
	Total Cust. Accts Present Rates											
18	Labor	5,631	6,019	6,333	6,341	6,725	8,162	8,102	0	8,102	0	8,102
19	Non-labor	4,424	4,713	4,816	5,975	5,529	7,378	8,980	155	9,135	535	9,670
20	TOTAL	10,055	10,732	11,149	12,316	12,254	15,540	17,082	155	17,237	535	17,772
	<u>Account 904 - Uncollectible Accts.</u>											
21	Non-labor	1,015	413	339	1,582	976	970	1,093	246	1,339		1,339
22	TOTAL	1,015	413	339	1,582	976	970	1,093	246	1,339		1,339
	Total Cust. Accts Current Effective Rates											
23	Labor	5,631	6,019	6,333	6,341	6,725	8,162	8,102	0	8,102	0	8,102
24	Non-labor	4,424	4,713	4,816	5,975	5,529	7,378	8,980	211	9,191	535	9,726
25	TOTAL	10,055	10,732	11,149	12,316	12,254	15,540	17,082	211	17,293	535	17,828
	<u>Account 904 - Uncollectible Accts.</u>											
26	Non-labor	1,015	413	339	1,582	976	970	1,093	316	1,409		1,409
27	TOTAL	1,015	413	339	1,582	976	970	1,093	316	1,409		1,409
	Total Cust. Accts CIP1 CT-1 (Full Cost) at Present & Current Effective Rates											
28	Labor	5,631	6,019	6,333	6,341	6,725	8,162	8,102	0	8,102	0	8,102
29	Non-labor	4,424	4,713	4,816	5,975	5,529	7,378	8,980	281	9,261	535	9,796
30	TOTAL	10,055	10,732	11,149	12,316	12,254	15,540	17,082	281	17,363	535	17,898
	<u>Account 904 - Uncollectible Accts.</u>											
31	Non-labor	1,015	413	339	1,582	976	970	1,093	298	1,391		1,391
32	TOTAL	1,015	413	339	1,582	976	970	1,093	298	1,391		1,391
	Total Cust. Accts Interim Increase (w/o CIP1 CT-1) at Present & Current Effective Rates											
33	Labor	5,631	6,019	6,333	6,341	6,725	8,162	8,102	0	8,102	0	8,102
34	Non-labor	4,424	4,713	4,816	5,975	5,529	7,378	8,980	263	9,243	535	9,778
35	TOTAL	10,055	10,732	11,149	12,316	12,254	15,540	17,082	263	17,345	535	17,880
	<u>Account 904 - Uncollectible Accts.</u>											
36	Non-labor	1,015	413	339	1,582	976	970	1,093	307	1,400		1,400
37	TOTAL	1,015	413	339	1,582	976	970	1,093	307	1,400		1,400
	Total Cust. Accts Base Case at Present & Current Effective Rates											
38	Labor	5,631	6,019	6,333	6,341	6,725	8,162	8,102	0	8,102	0	8,102
39	Non-labor	4,424	4,713	4,816	5,975	5,529	7,378	8,980	272	9,252	535	9,787
40	TOTAL	10,055	10,732	11,149	12,316	12,254	15,540	17,082	272	17,354	535	17,889